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UNCLAS SECTION 01 OF 02 MONROVIA 000620

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SUBJECT: GOL PRESENTS DRAFT BUDGET TO THE LEGISLATURE

REF: MONROVIA 599

1. (U) SUMMARY: On May 16, 2007, President Johnson Sirleaf presented the draft Fiscal Year 2007/08 National Budget to the National Legislature. The draft budget amounts to US\$183 million and reflects a 40 percent increase in revenues compared to the 2006/07 budget. The increase in the budget reflects an annualized growth rate of 7.8 percent compared to 5.7 percent during the same period in 2005/06. Expenditures are aligned with the ongoing implementation of the policies and programs set forth in the Interim Poverty Reduction Strategy Paper (IPRSP). The transparent, timely, and professional elaboration of the budget represents a revolution in budgeting for Liberia. It is unclear whether the request for financial autonomy (reftel) may have an impact on budget deliberations. END SUMMARY.

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REVENUE PROJECTIONS  
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2. (U) Revenue projection of US\$183 million is derived from five categories: Tax Revenue, Non-tax revenue, Maritime, Extra-ordinary and other Non-tax Revenues. Tax Revenue accounts for 75 percent, which indicates a growth of 15 percent over the annualized collection of US\$119.2 million for 2006/07 fiscal year up to March 2007 and US\$98 million projected at the start of that period. The main sources of tax revenue are international trade and transactions (28 percent); taxes on income and profits (27 percent), and Domestic Taxes on Goods and Services (10 percent). Other taxes, including property, non-tax and maritime constitute 26 percent. The projected increase in tax revenue is driven by expected growth in the forest and mining sectors where sanctions have been lifted (though activity remains stalled). Non-tax revenue is 16 percent of total projections or US\$29.3 and includes government income derived from property, fees, charges and extraordinary revenue. Maritime revenue is 9.5 percent or US\$13.0 million. Dividends from state-owned enterprises - Liberia Petroleum Refining Company, Forestry Development Authority and Liberia Bank for Development and Investment - are reflected in this year's revenue projections. Arcelor Mittal's commitment of US\$3 million to three counties: Nimba, Bong and Grand Bassa represent the only other Non-tax Revenue, which is 2 percent of the budget. The GOL credits robust revenue generation mechanisms that have stifled tax evasion and minimized bureaucratic red tape for the bulk of the increase in forecast revenues.

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EXPENDITURE MANAGEMENT  
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3. (U) The draft budget amounts to US\$183 million with a base revenue of US\$180 million and a dedicated sum of US\$3 million from Arcelor Mittal for three counties: Bong, Grand Bassa and Nimba. The largest allocation in the budget is for personnel which accounts for 34.8 percent. Civil servants receive a boost in the budget with a 67

percent jump in their minimum salary from US\$30 to US\$50; an overall increase ranging from US\$20 to US\$60 per month is applied to other civil servants based on their service classification. Goods and services are the second largest allocation at 29.3 percent. The continuing resolution of domestic debt arrears accounts for 7 percent of the budget. Education tops the sector allocation with 8.31 percent; health 7.7 percent; other entities 6.25 percent; justice 5 percent and public works 4.85 percent.

14. (U) The new budget remains cash-based: the existing policy that authorizes expenditure only on the availability of cash will be maintained. However, ministries and agencies are experiencing difficulty ensuring that expenditures keep pace with revenues. Out of a total budget of US\$129.9M for 2006/07, about US\$75M had been spent as at the end of the third quarter of the budget period. The lack of capacity to prepare vouchers, procurement requests and other documents needed to justify expenditures has led to late submission of expenditure requests and late approvals of appropriations. Compliance with the Procurement Act remains a challenge and it has been cited as the principal source of the gap between revenue collection and expenditure. The Bureau of the Budget, Ministry of Finance and the Public Procurement and Concession Commission (PPCC) have all signaled commitments to improve systems.

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IPRS RELATED EXPENDITURES  
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15. (U) The budget places clear priority to the government's commitment to poverty reduction under the Interim Poverty Reduction Strategy (iPRS). Appropriations to certain ministries and agencies that are expected to deliver social services such as education, health, agriculture, public works, and water and sanitation amount to US\$42.5 million, which represents a 39 percent increase over

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spending on the same programs in 2006/07.

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BUDGET FORMULATION AND IMPLEMENTATION  
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16. (U) The new budget represents a revolution in transparency and accountability. The Bureau of the Budget (BOB) managed the budget formulation process in collaboration with ministries and agencies. The lack of capacity in ministries and agencies has undermined the budget process in the past, but last year the Bureau of the Budget held over 50 workshops with ministries and agencies in order to increase transparency and capacity. According to the Budget Director, Agustine Ngafuan, the level of professionalism in budget contribution has increased significantly. Budget projections were presented on time, and decentralization of the budget preparation to accommodate inputs from county officers was achieved. Timely preparation of the 2007/08 budget suggests a marked improvement in effective leadership and expert guidance during various stages of the budget. For the first time, the budget is published online and open to public scrutiny.

17. (U) Director Ngafuan acknowledged that the budget formulation process requires additional improvements and the BOB is already setting a workplan for improved revenue reporting; effective budget implementation; capacity improvement of the Bureau of the Budget and line ministries; developing spending plans; a better budget classification system; a budget monitoring policy; a comprehensive budget manual; improved budget analysis; and a legislative guide to the budget.

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FINANCIAL AUTONOMY ACT  
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18. (U) The National Legislature has passed an Act to amend certain provisions of the legislative law to provide the Legislature financial autonomy (reftel). The Act potentially undermines agreed systems and controls necessary for fiscal governance. At present,

members of the legislature are negotiating with the President's Office to possibly produce a watered-down version of the Act, and it is possible the legislature could wield its power over budget approval to strengthen its negotiating position on the Act, thereby delaying what has thus far been a timely budget formulation process.

19. (SBU) Comment: The timely presentation of the budget to the Legislature is laudable, but the capacity of the Legislature to analyze the document and ask pertinent questions remains questionable. Assistance to the Bureau of the Budget is a shining success story, but there is dire need for assistance to build the technical capacity of the Legislature to handle financial matters as well. The lapses in the passage of the Financial Autonomy Act illustrate the need for technical assistance and possibly the creation of a Legislative Budget Office. End Comment.

MAZEL